

Canada's Retail Sales Are At An All-Time High. Now What?

- Canadian retail sales are at an all-time record high
- Q3 sales soared by 113%...
- ...but no growth is baked into Q4
- The full sales recovery has been uneven across categories...
- ...as consumers have sensibly spent less on autos, gas & clothing...
- ...and more on everything else

CDN retail sales, m/m % change, headline/ex-autos, August, SA:

Actual: 0.4 / 0.5

Scotia: 1.1 / 0.8

Consensus: 1.1 / 0.9

Prior: 1.0 / -0.1 (revised from 0.6 / -0.4)

September guidance for headline sales: "relatively unchanged"

Optimists and pessimists alike would both have something to cheer in the latest figures on Canadian spending patterns. The glass half-full perspective would note that Canadian retail sales volumes are at an all-time record high and that proponents of a v-shaped recovery like us have been on the mark. They would point toward explosive growth during Q3 and a full recovery from the pandemic—and then some.

The glass half-empty perspective would flag the risk of stalled momentum and brought forward demand that raises a red flag on where growth will come from in future and particularly through the Q4 holiday shopping season. That camp could argue that stimulus efforts, some freed up income for those who have kept their jobs, and cocooning effects were so supportive of sales that they may give way to a demand vacuum amidst supply side challenges in securing and transporting goods in time for the usually holiday shopping season.

Charts 1 and 2 provide both perspectives. Achieving further retail growth during the final quarter of the year is already behind the eight ball. After a decline of 7% in Q1 over Q4 and a plunge of 41% in Q2, sales volumes surged by 113.5% in Q3 and drove the overall tally to record heights. Based on the quarterly average for Q3 and the way the quarter ended, however, Q4 has 'baked in' growth of just 0.6%, or basically nothing. There would need to be sizable monthly sales gains in order to put in a decent overall quarter.

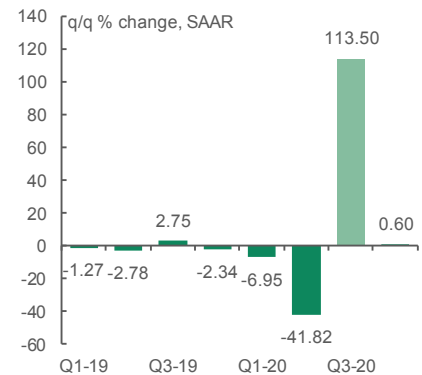
Retail sales disappointed StatsCan's earlier guidance for sales growth in dollar terms during August that had called for a gain of 1.1% m/m and instead turned up 0.4%. That was significantly due to upward revisions to the prior month's gain that was taken up four-tenths to 1.0% m/m.

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Chart 1

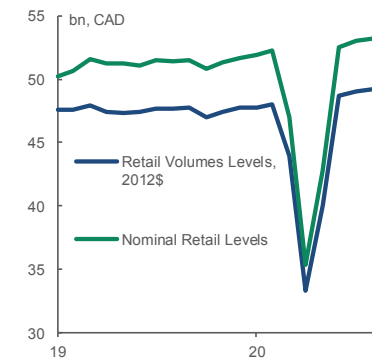
Canadian Retail Sales Volumes



Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Canadian Retail Sales Levels



Sources: Scotiabank Economics, Statistics Canada.

Chart 3

Change in Retail Volume Levels Between February & August



Sources: Scotiabank Economics, Statistics Canada.

Retail volumes were up by 0.5% m/m in August such that all of the gain that month came through higher volumes as total prices slipped a touch.

Chart 3 shows the varying recoveries across types of retail sales by plotting the cumulative percentage changes in sales volumes from February, just before the pandemic struck, to August. Total sales volumes are up by 2.5% on net over this period. Categories that are up on net include electronics, building materials, food/beverages, general merchandise, sporting goods, health and personal care products and furniture. These are all the sectors that have enjoyed a lift from the pandemic or benefitted from more of a home bias to spending patterns.

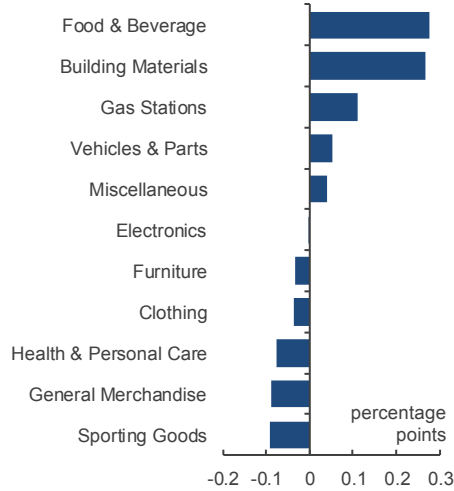
Categories that are down include autos and parts with the exception of 'other' vehicles like ATV/bikes that are strongly higher, gas stations and clothing. This makes some sense; cocooning during the pandemic has driven sales of items used at home much higher and sales for clothing, gas and the overall autos category lower.

Charts 4 and 5 provide a break down of the weighted contributions to sales growth during August in terms of volumes (chart 4) and in dollar value terms (chart 5).

The Bank of Canada wouldn't over react to one report on one sector of the economy, but at the margin, the overall tone of these figures is consistent with looking through the initial stages of recovery toward a more muted path with heightened risks going forward particularly as the second pandemic wave unfolds.

Chart 4

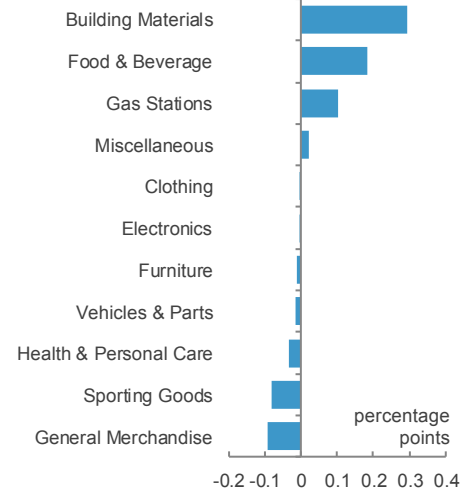
Weighted Retailer Contributions to August Real Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

Weighted Retailer Contributions to August Nominal Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

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